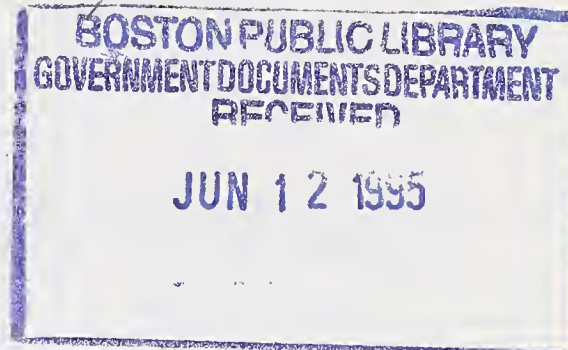


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MEMORANDUM.



Mayor Raymond L. Flynn

FROM: Economic Development Working Group

DATE: May 22, 1990

RE: Using Taxable and Tax-Exempt Bond Financing to Finance a
"Boston Portfolio" of Major Development Projects.

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EXECUTIVE SUMMARY

Several factors have contributed to an environment in which difficulties in obtaining financing for new development projects are threatening to prolong the present economic slow down, with serious human and economic costs. Our first memorandum to you, dated April 30, 1990, documented the credit crunch now affecting Boston and Bay State businesses and its potential impact on the regional economy. That memorandum reported that in a recent survey of Massachusetts small businesses, over 45% reported having significant difficulties in obtaining credit over the last six months.

Although federal regulators have recently announced that "the worst is over" in their reviews of large New England banks, our discussions with developers and business leaders indicate that credit remains extremely difficult to obtain for local economic development projects. As reported by the Boston Herald this morning, Ronald R. Dion, president of the Building Owners and Managers Association ("BOMA") has reiterated that the biggest threat to the long-term recovery of the office market continues to be the credit crunch. "Portfolio managers [at major insurance companies] have effectively redlined New England as a result of all the news coming out of this region over the last six months," he said.

Tight credit is a particularly difficult problem for medium-sized projects -- those which would ordinarily receive financing from local banks. To the extent local credit is available at all, it is being conditioned on loan-to-value ratios and guarantee requirements that effectively render most private development projects impossible to finance.

Many large out-of-state investors and lenders, including overseas capital sources, have expressed long-term confidence in Boston and the region. Yet local developers are having difficulty translating this confidence into needed financing. Public sector leadership, at the City and State levels, is necessary to unlock these capital sources for local economic development.

This memorandum proposes using taxable and tax-exempt bond financing as an alternative financing tool for a select "Boston Portfolio" of economic development projects:

- o Charlestown Navy Yard, Yard's End Research Center, Phase I;
- o New England Aquarium at the Charlestown Navy Yard;
- o The Custom House Restoration;
- o Ruggles Center, Phase I;
- o South Station Air Rights Development, Phase I; and
- o 90 Tremont Street.

Such bond financing can be made available through the Boston Industrial Development Finance Authority ("BIDFA") and the Massachusetts Industrial Finance Agency ("MIFA"). BIDFA is the City of Boston's business financing vehicle, offering Boston businesses and non-profit institutions access to taxable and tax-exempt bond financing. MIFA serves a similar function on a state-wide basis and cooperates closely with BIDFA in securing credit for Boston-based projects.

Ample precedent exists for the use of bond financing for major private development projects. BIDFA recently issued \$7.15 million in tax-exempt revenue bonds for the St. Joseph Manor Nursing Home in Dorchester. And last year, MIFA issued over \$250 million in taxable revenue bonds to finance the acquisition by Massachusetts General Hospital of the newly-renovated research, office, and parking facilities at Buildings 149 and 199 in the Charlestown Navy Yard. This \$250 million bond issue was sold in less than a week.

Use of BIDFA/MIFA financing to finance the "Boston Portfolio" would:

- o Tap an enormous source of project capital to which private developers would otherwise not have access;
- o Allow for marketing efficiencies in presenting projects to investors;
- o Allow investors with confidence in Boston to reduce their risk by investing in a diverse portfolio of projects in the City;
- o Offer a small, but meaningful interest rate advantage;



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As much as \$400 million in bond financing could be made available to the Boston Portfolio projects, with a total combined development cost of over \$450 million, offering over 1,400 new construction jobs and providing over \$7.5 million in jobs and housing linkage payments.

On a priority basis, we are proposing the test marketing of the Boston Portfolio strategy with three projects: 90 Tremont Street, Ruggles Center Phase I, and the Custom House Restoration. These three projects have a combined development cost of over \$100 million and can be commenced by next spring.

1. Taxable and Tax-Exempt Bond Financing.

BIDFA is a municipal authority, established pursuant to General Laws Chapter 40D, offering Boston businesses and non-profit institutions access to tax-exempt and taxable bond financing for the purposes of generating and expanding job and business opportunities in Boston. BIDFA is affiliated with the Boston's economic development agency, the Economic Development and Industrial Corporation ("EDIC"). BIDFA recently approved the issuance of over \$135 million in bond financing for a variety of economic development projects, including \$38 million for the reopening and startup of the former James River Paper Mill in Hyde Park.

MIFA is an independent state agency, established pursuant to General Laws Chapter 23A, whose purpose is to serve as a catalyst for economic development in the Commonwealth by offering businesses and non-profit institutions access to domestic and international capital markets. Since its formation in 1979, MIFA has raised over \$4.8 billion for 2,397 projects.

MIFA was created by state law to act cooperatively with local industrial development finance authorities, such as BIDFA, to promote economic development in each municipality. BIDFA is the lead business financing agency for Boston. However, the respective enabling statutes of the BIDFA and MIFA make clear that certain types of Boston area financings are appropriately arranged by MIFA. The allocation of responsibility for the Boston Portfolio projects will flow naturally from a detailed, project-by-project analysis of the financing needs of each development.

Tax-exempt bonds can be issued under certain circumstances for public-use and non-profit projects. Otherwise, bonds issued by MIFA or BIDFA to finance the Boston Portfolio projects would be taxable. Except for public-use projects, bond issues would not involve any claim on tax revenues or on the full faith and credit of either the city or the state. Bonds issued to finance private projects would be secured and repaid by the projects and private borrowers themselves.

2. The Boston Portfolio

The Boston Portfolio would consist of select public and private development projects in the City.

Six critical projects are proposed for inclusion:

- o Charlestown Navy Yard, Yard's End Research Center, Phase I, a \$90 million office and medical research facility. Construction on the first phase of the Research Center is scheduled to begin in 1991.
- o New England Aquarium, a planned \$130 million, world-class recreation and educational facility, replacing the existing structure now on Central Wharf. The scheduled commencement date is 1992.
- o The Custom House, a \$30 million restoration of Boston's first downtown tower. The planned construction start is 1991.
- o Ruggles Center, Phase I, a \$36 million office building, which will anchor the emerging economy of Roxbury and the Southwest Corridor. Construction is scheduled to start in 1990.
- o South Station Air Rights Development, Phase I, a \$125 million mixed-use project incorporating substantial medical research space. Construction is scheduled to commence in 1992.
- o 90 Tremont Street, a \$45 million restoration of the historic Tremont Temple and new office development with a planned construction start in 1991.

The total potential capital investment represented by the Boston Portfolio exceeds \$450 million. The Projects included in the Boston Portfolio together offer enormous benefits to the residents of Boston:

- o Over 1,400 new construction jobs;
- o Over 5,750 permanent jobs;
- o Over \$7 million in jobs and housing linkage payments;
- o Over \$7 million per year in new City tax revenues;

Individual projects included in the Boston Portfolio offer important benefits to Boston residents as well:

- o Economic development in the Southwest Corridor Area of Roxbury through the development of Parcel 18;
- o Promotion of "new economy" industries critical to Boston's growth through the development of the South Station air rights parcel and Charlestown Navy Yard;
- o Creation of an educational facility and tourist destination of national caliber through the construction of the new Aquarium.

The Boston Portfolio includes non-profit facilities that may be eligible for tax-exempt financing, together with others for which taxable financing would be appropriate. It includes both large and medium-sized projects in a variety of locations and supporting a variety of uses. The bundling of these projects into a package offers a number of advantages:

- o The City would be able to market its key projects to investors effectively and efficiently. This marketing advantage may prove essential in the current environment of economic uncertainty.
- o The Boston Portfolio would offer an attractive investment package by allowing local, national, and international sources of capital with confidence in the City to invest in major City projects while reducing risk through diversification.
- o The collection in the same package of projects eligible for tax-exempt financing and taxable financing would allow for flexibility in designing investment products geared to the needs of specific large investors.

If the bond underwriting for the Boston Portfolio could be accomplished through investment firms based in Boston or with a strong local presence, then the maximum possible economic benefit from the financing could be retained within the Boston economy.

We propose that the concept of the "Boston Portfolio" be test marketed with three projects that can be commenced by next spring:

- o 90 Tremont Street, the first project in the Midtown Cultural District.
- o Ruggles Center, Phase I, the first major private investment in Roxbury in decades.

- o Custom House Restoration, a symbol of Boston's rebounding economy.

These projects have a combined total development cost of approximately \$110 million and would require up to \$90 million in financing. BIDFA would be the appropriate vehicle to arrange financing for this first portion of the "Boston Portfolio."

3. Next Steps and Conclusion.

Implementation of Boston Portfolio initiative will involve the following initial steps:

1. Meeting between representatives of the City and of BIDFA and MIFA to further develop the Boston Portfolio concept and better define the roles to be played by BIDFA, MIFA, the City, and private borrowers.
2. One or more conferences with local bond underwriters and institutional investors, such as pension funds, to test the feasibility of the concept.
3. Establishment of the basic terms of an agreements among the City of Boston, BIDFA, and MIFA allowing the Boston Portfolio to be represented in the capital marketplace.
4. Conferences with individual project sponsors to involve them as active participants in the Boston Portfolio initiative.
5. Continued marketing of the Boston Portfolio concept, as well as other opportunities, to markets and investors outside of this region.

Federal regulators have announced that the "credit crunch" is anecdotal. We have been informed that "the worst is over." In reality, it is harder to finance new economic development projects today than it has been for over a decade. The regulators have left. The credit crisis remains. Boston and the Commonwealth must take the leadership role in providing access to credit and capital markets for worthwhile projects which have the potential to expand Boston's economic base.

Despite the state's fiscal crisis, the credit crunch, and the current economic slow down, investors remain confident about the underlying strength of the Boston economy and about the long-term prospects of this region. The Boston Portfolio strategy is an effort to capitalize on this investor confidence in our long-term strength while bypassing the fiscal and credit problems that impede investment in the near-term. To achieve our investment goals, the strategy should be implemented as soon as possible.

A number of business, development, labor, and community leaders have volunteered to work with the administration on the key projects pipeline. Many have expressed that they share our confidence about Boston's long-term prospects. To maintain momentum on these issues, we should consider formalizing the task force structure, and begin work on specific projects. It would be appropriate to present the Boston Portfolio strategy in this forum to gain the valuable insight and support of this broad spectrum of Boston leadership.

